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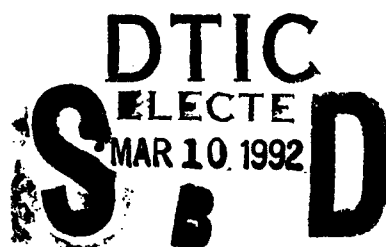
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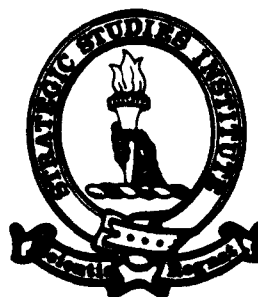
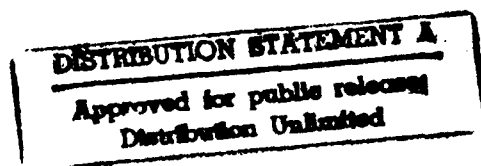
**Strategic Studies Institute  
U.S. Army War College**

**A FALTERING JAPANESE ECONOMY  
FRUSTRATES GLOBAL RECOVERY**



**Leif Rosenberger**

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FRUSTRATES GLOBAL RECOVERY**

**Leif Rosenberger**

**January 9, 1992**

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## FOREWORD

Since World War II, Japan has been a key security partner of the United States in Asia and the Pacific. Tokyo has been a staunch supporter of U.S. policy and has provided high quality bases for the U.S. forward presence in the Asian-Pacific theater.

Unfortunately, in the post-cold war period, close U.S.-Japanese security ties have been jeopardized by growing economic strains. In the past, defense burdensharing has frequently been at issue, but more recently, the perception of Japan as an unfair trading partner has become the main focus of attention. As a result, the image of Japan as some kind of "export monster" devouring U.S. and Western economic interests has made a bad situation worse, and could lead to a breakdown in the all important U.S.-Japanese security relationship.

Carl von Clausewitz said that "the first, the supreme, the most far-reaching act of judgment that a statesman and commander have to make is to establish... the kind of war on which they are embarking; neither mistaking it for, nor trying to turn it into, something that is alien to its nature." The author of this study contends that many Americans are being too quick in calling for an escalation in the economic competition with Japan to some form of economic warfare. They have a mistaken view of the Japanese economy. Once Americans and their leaders begin to understand that the Japanese economy faces problems of its own, then they will be able to make informed decisions about how to steer the Japanese and Western economies in a mutually advantageous direction. And once Japanese and Western economic strategies are better synchronized, the prospects for global recovery and a peaceful new world order become much more promising.



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## **A FALTERING JAPANESE ECONOMY FRUSTRATES GLOBAL RECOVERY**

### **Introduction.**

With the reality that "all politics is local politics" firmly on their minds, President Bush and 21 American business leaders made a strong pitch for American exports and jobs during their January 7-10, 1992 visit to Japan. That plays well in an America weary from recession and unhappy about 70,000 American auto workers losing their jobs at General Motors. Given this negative domestic U.S. environment, Japan is an easy scapegoat for a weak U.S. economy. Japan's share of the U.S. car market has been steadily increasing and Japan's trade surplus is going up again. If only Tokyo would allow more access to its markets the argument goes, U.S. exports and U.S. export-related jobs would increase, thus jump-starting the U.S. recovery.

Whether or not the message President Bush and his entourage delivered in Tokyo was really as "severe" as press accounts suggest, the Bush visit highlights dangerous strains in U.S.-Japanese economic relations. Half a century after Pearl Harbor, a growing number of Americans are concerned about an "economic Pearl Harbor." As the United States moves into the post-cold war world, many Americans are dusting off cold war strategies to deal with the specter of Japan's growing economic might and the relative U.S. economic decline. With the collapse of the Soviet Union, Americans are looking for ways to "contain" the Japanese economic juggernaut which has enjoyed over 4 per cent annual growth since 1980, thus dwarfing its sluggish U.S. counterpart. Japan's rising trade surplus is prompting many recession weary Americans to rise up and fan the fires of protectionism. Implicit in this political hysteria is the view that U.S.-Japanese economic relations is a zero-sum game. They're winning, we're losing—and this must somehow be reversed.



Unfortunately, this politically explosive anti-Japanese feeling in the United States, and calls for an economic cold war crusade against the Japanese are blinding Americans to what is really going on in the Japanese economy and what to do about it. Contrary to the prevalent hysteria about Tokyo's economic might, Japan's economy is faltering—at least by Japanese standards. And contrary to the zero-sum analogy, an ailing Japanese economy is bad for the United States and all the other interdependent economies around the world. A troubled economic situation in Japan means that Tokyo is in no position to be the economic locomotive needed to drive global economic recovery or support the new world order.

### **The Economic Slowdown.**

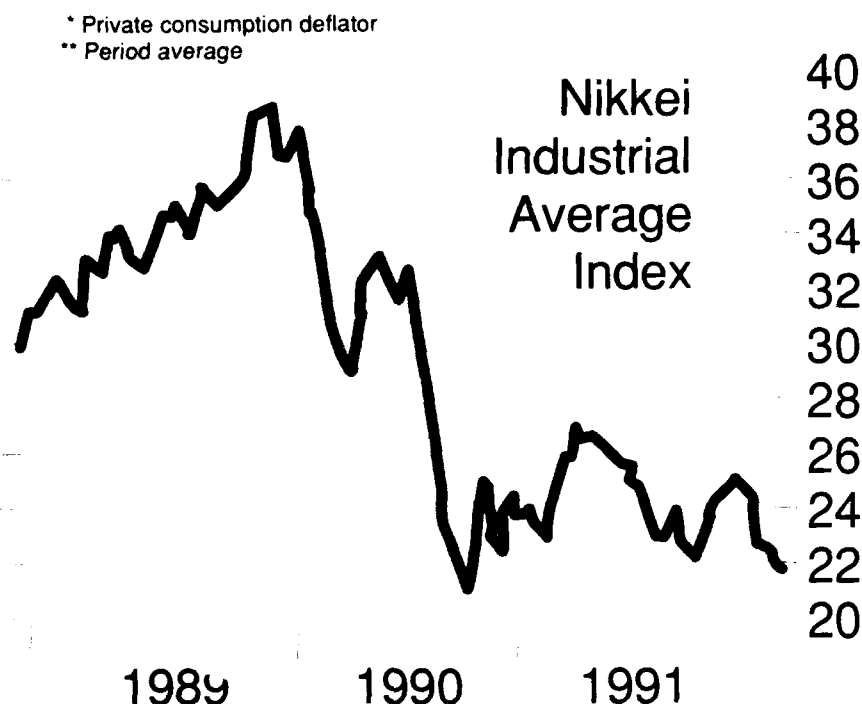
Admittedly, during the 1980s nothing could stop the Japanese economic juggernaut. Year after year, Japanese economic performance consistently outpaced its rivals. In fact, the past 5 years have seen the Japanese economy reach record expansion, during which real GNP growth averaged almost 6 percent annually.<sup>1</sup> But a number of financial shocks have recently jolted the Japanese economy and have precipitated the most serious economic slowdown since the first oil crisis in 1973-74. Japanese economic growth in their fiscal year ending in March 1992 is expected to be only half as large as the 5.7 percent economic growth this past year. And in 1992 the Organization for Economic Cooperation and Development (OECD) predicts Japanese economic growth will only be 2.4 percent.<sup>2</sup> While many countries would be content with this growth, the Japanese expect much more. In fact, the Japanese themselves define annual growth of less than 3 percent as a recession, and are troubled by the recent turn of events.<sup>3</sup> Moreover, growing numbers of forecasters who look at leading economic indicators are even more pessimistic about the Japanese economy than OECD. For instance, Michael Naldrett of Kleinwort Benson, a British merchant bank, sees the Japanese economy growing at less than 2 percent in 1992, even if the American economy recovers. If the U.S. economy experiences a double-dip recession, Naldrett forecasts that Japan's GNP will grow by less than 1 percent.<sup>4</sup>

Recent key economic indicators show the Japanese economy decelerating rapidly in most sectors. For instance, October 1991 figures for the leading diffusion index (which indicates expected economic strength for the near term), and the coincident index (which measures current economic strength), simultaneously registered zero percent for the first time since 1957. The cut-off line for a growing economy is 50 percent for both indexes. That's why in December 1991, the Japanese Economic Planning Agency was forced to admit that the economy was no longer "in an expansionary phase."<sup>5</sup>

### **Origins of the Slowdown.**

While the actual slowdown in Japanese GNP did not begin to show up until the last year or so, its root causes can be traced back to the mid-1980s, when the yen's surge against the dollar apparently caused concern in Tokyo that Japanese exporters would suffer. In any event, the Bank of Japan (BOJ) radically eased its monetary policy. It let inflation-adjusted interest rates plummet to 2.5 percent, and cheap credit flooded the economy. Japanese investors overborrowed, thus driving the broad measure of money to around 8 percent a year in the mid-1980s, and eventually to 13 percent by 1989.<sup>6</sup> At the same time, Japanese stock and property markets (the so-called bubble economy) boomed uncontrollably, arguably risking a financial crash. Most importantly, too much cheap credit as well as signs of growing labor shortages raised inflationary fears at the BOJ.

To dampen inflation, the BOJ decided to tighten monetary policy, thereby puncturing the inflated bubble economy. As part of the BOJ's credit squeeze, it raised the official discount rate (ODR) five times between May 1989 and August 1990. This crusade to force speculation out of the stock and land markets has precipitated the worst financial crisis in Japan in almost 30 years. In April 1990, the Nikkei stock market in Tokyo collapsed, with share prices crashing 40 percent (See Figure 1). Land prices, while slower to respond initially, have also plummeted.<sup>7</sup>



Source: The Financial Times, 3 January 1992, p.9.

Figure 1. The Falling Japanese Stock Market.

Meanwhile, BOJ's credit squeeze triggered a drastic reduction of broad money growth. From January to May 1991, money growth was only 3.5 percent.<sup>8</sup> The rate of money supply growth in the Japanese economy continues to decline. In September 1991, it reached a record new low of 2.8 percent year-on-year, compared with a peak of 13.2 percent in May 1989.<sup>9</sup> BOJ's concern about the rapid decline in money supply growth prompted it to ease monetary policy the last few months in an effort to stimulate growth in the money supply. The fact that money supply growth continues to be sluggish—only 2 percent year-on-year in December 1991—reflects the reality

that the problems in the Japanese commercial bank and financial institutions and the concomitant problems hitting Japanese corporations are deeply entrenched.

These financial pressures have been disastrous for the Japanese stock market, which has been limping along roughly 45 percent below peak levels while stock markets elsewhere in the world are touching record highs.<sup>10</sup> A closer look at Japanese financial institutions helps to explain why the Japanese financial excesses of the 1980s and BOJ's crusade to curb them will burden Japanese banks and financial institutions for many years to come.

### **Banks Reluctant to Lend.**

The Bank of Japan's tight monetary policy is making it increasingly difficult for Japanese commercial banks to lend money to corporations because Japanese banks are being hit hard from all directions. For instance, the surge in interest rates from 2.5 percent to a relatively high 5 percent has raised financial costs for the banks themselves and it has clobbered some of the banks' shakier borrowers. As a result, Japanese banks are now awash in mounting bad loans.

While it is clear that these bad loans are burdens on the banks, precise estimates of their size and how much overall risk Japanese banks are facing are impossible for investors and depositors to assess due to the Japanese Finance Ministry's notoriously lax financial disclosure requirements. Until the Finance Ministry tightens disclosure rules, this uncertainty will continue to undermine confidence in a Japanese financial system still badly shaken from a series of damaging scandals.<sup>11</sup>

The combination of falling property and stock markets, and bankruptcies soaring to record levels has eroded the capital-to-asset ratios of Japanese commercial banks. This unhappy trend is particularly damaging to these banks because half their capital is based on unrealized share gains in the stock market.<sup>12</sup> Therefore, Japanese commercial banks are finding it more difficult to meet new international capital-to-asset ratio requirements set by the Bank for International Settlements (BIS).

In addition, Japanese banks, in contrast to their U.S. counterparts, are just beginning to adjust to financial deregulation, which leaves lending rates and volumes up to market forces. In this new volatile deregulated environment, a number of inexperienced Japanese banks are struggling. At a minimum, disparities are widening in Japanese banks' size and profitability.<sup>13</sup>

Fortunately, the present financial crisis has not yet reached the full-blown financial collapse of the mid-1960s, perhaps because Japanese banks were rock solid, or so it seemed, just 5 years ago. A number of the largest banks made sufficient profits in the 1980s to offset recent losses. But the weight of mounting debts is now starting to strain even the resources of some larger banks. For instance, in 1985, eleven of the largest Japanese banks had top-notch credit ratings from Moody's Investor's Inc. Today, none of those eleven banks have a first-rate credit rating; and, in terms of global return-on-asset rankings, the huge Japanese banks have slipped far behind the more conservative, more profit-oriented German and Swiss banks.

Particularly hard hit have been Japanese trust banks that rely heavily on equity and property transactions. From April to October 1991, their profits declined 45 percent, and they are expected to suffer significant losses in the years ahead. "Japan's banks have never skated this close to the edge," says Alicia Ogawa, a Tokyo-based analyst at S.G. Warburg Securities Ltd.<sup>14</sup>

Since World War II, Tokyo has never let a Japanese bank collapse. But with bad debts mounting at an alarming rate, Japanese financial regulators are subtly backing away from their previous commitments to prevent the collapse of financial institutions. This year Tokyo is finding it increasingly difficult to persuade larger banks (many of which are seeing their bottom line worsen) to voluntarily swallow up weak banks. So, for the first time since the government's deposit insurance system was established in 1971, the Japanese government was forced to commit itself to draw eight billion yen from the system to bail out a Japanese bank (Toho Sogo Bank Ltd). But in contrast to the U.S. FDIC, the Japanese deposit insurance system has

meager funding. Only 500 billion yen (\$3.91 billion) has been set aside to bail out a few small banks. So it would appear that an increasing number of Japanese banks will fail, thereby undermining still further confidence in a shaky financial system.<sup>15</sup>

### **Corporations Reluctant to Borrow.**

As Japanese banks scramble to deal with their worst problems since World War II they are following their troubled counterparts in America and slashing lending.<sup>16</sup> But even if banks were in the mood to lend, corporations are not so anxious to borrow at real interest rates alarmingly high (by Japanese standards). Their cost of capital is much more expensive now that investors are no longer waiting in line to pay premium prices for equity-linked securities, the value of which has been hammered by the weak Nikkei stock market.<sup>17</sup> Faced with this credit crunch, corporations with cash reserves built up during the boom years now prefer to run down these liquid assets rather than borrow.<sup>18</sup> But many of the corporations with more modest liquid assets are being starved of funds, either because banks refuse to lend them money or because capital from commercial banks is simply too costly. Corporate liquidity for these struggling companies will also be hampered by the slow recovery of the stock market and the massive redemption of equity-linked financial issues beginning in fiscal 1992.

In the face of this formidable credit crunch, thousands of Japanese companies simply can no longer compete and are collapsing at a disturbing rate. During the first seven months of 1991, 5,600 Japanese companies went bankrupt (up 63 percent over the same period in 1990). Corporate bankruptcies continued to rise sharply in Japan in November 1991, with the number of business failures 75.1 percent higher than a year earlier.<sup>19</sup> Bankrupt companies have left more than 4 trillion yen (\$29 billion) in unpaid debts so far in 1991—nearly six times the total for 1990. And bankruptcy watchers say the worst is yet to come.<sup>20</sup> Corporate bankruptcies may top 7 trillion yen (\$53.42 billion) by the end of the fiscal year (ending March 31, 1992).<sup>21</sup> This avalanche of bankruptcies is taking a toll on business

confidence. A Bank of Japan report published on December 10, 1991 showed business confidence in Japan declining sharply. This marks a big change in sentiment since the previous survey of business confidence in September 1991.

Japanese businessmen have a number of significant concerns.<sup>22</sup> For instance, the Japanese people as well as Japanese corporations are now deeply in debt. Today, the Japanese are bigger borrowers than even Americans, with personal debt in Japan at more than 20 percent of disposable income compared with 19 percent in the United States. And if mortgages are included, the difference is still larger. This lofty Japanese personal debt figure is contributing to rising personal bankruptcy among individuals and small family businesses.<sup>23</sup>

Needless to say, high personal debt and rising personal bankruptcies bode ill for Japanese consumer spending, which represents nearly 60 percent of Japanese GNP.<sup>24</sup> Tokyo department store sales fell 2.4 percent in December 1991 from a year earlier, the largest fall since 1965. Overall, consumer spending continues to drop, with some of Japan's biggest consumer electronics firms, as well as auto makers, showing reduced sales at home (as well as abroad). In addition, housing starts—down about 20 percent from November of 1990—are declining at their fastest rate since 1982.<sup>25</sup> Semiconductors, machine tools and luxury consumer goods have also been hit hard.

The drop in consumer spending is predictably taking its toll on the corporate bottom line. Japanese corporations are seeing profits plummet. Large manufacturing companies, for instance, now expect pre-tax profits in the current fiscal year (ending in March 1992) to fall 12.9 percent, compared with overly optimistic estimates in September 1991 that said profits would only decline 2 percent. The celebrated Japanese electronics industry has been especially hard hit. Sony's earnings dropped 33 percent in the July-September 1991 period, and Sony candidly says it expects further declines in earnings in the future. Sony's misery is shared by Matsushita Electric Industrial Company, Japan's largest consumer

electronics maker. It reported a 34 percent drop in pre-tax profit for the same quarter ending on September 30, while Pioneer Electronics Corporation posted a 27 percent decline.<sup>26</sup>

And while the nonmanufacturing companies are in better shape, they too are suffering. Large nonmanufacturing companies had been expecting to enjoy another increase in profits. But these large nonmanufacturing companies now expect an actual 1.5 percent fall in profits, the first decline in 8 years.<sup>27</sup>

### **Business Investment Slow.**

In the face of slumping corporate profits and a credit crunch made worse by the difficulties of raising funds in a weak stock market, Japanese companies have been hard pressed to keep the pace of their investment programs on track.<sup>28</sup> While private capital spending (or business investment) represents only 22 percent of the GNP, strong capital spending of about 15 percent a year accounted for two-thirds of the increase in GNP between late 1986 and early 1991.<sup>29</sup> That boom in business investment is now over.

Business investment is slackening fast. Tokyo's Economic Planning Agency has just trimmed its forecast of business investment growth in this fiscal year from 8 percent to 5 percent. And in the fiscal year starting in April 1992, Salomon Brothers expects capital spending to fall by 4 percent.<sup>30</sup> In the manufacturing sector, annual business investment growth is expected to tumble from double digits to 8.1 percent this fiscal year. Worse still, the annualized rate for capital spending in the manufacturing sector in recent months has only been 2.8 percent.<sup>31</sup>

While most analysts do not expect overall Japanese business investment to fall by more than 4 percent, several of the most prominent Japanese corporations have already announced much bigger cuts in their capital spending. For instance, Sony has scaled back its capital spending plans for 1992 by 20 percent.<sup>32</sup> Sharp cuts have also been announced by semiconductor makers. A recent survey shows that 100 top Japanese companies expect investment in plants and



equipment to rise just 6.8 percent this fiscal year—the lowest increase in 4 years. For 1992-93, they expect a decline—the first in 6 years.<sup>33</sup> Hiroshi Takeuchi, Chairman of the Board of Counsellors of the LTCB Institute of Research and Consulting, says investment growth will fall from about 4 percent in 1991 to zero growth next year.<sup>34</sup>

Fortunately, several factors will prevent capital spending from suffering an imminent free fall. First, a number of firms took advantage of cheap funds in the late 1980s and have strong liquidity positions, which they can dip into for awhile. Second, capacity utilization remains high because only a third of the capital spending in recent years added to capacity. Most of the business investment has been in labor-saving equipment or research and development.<sup>35</sup>

That being the case, the Salomon Brothers' forecast of an overall 4 percent fall in Japanese business investment would still mean Japanese capital spending is a very respectable 18 percent of GNP in 1992, down from a peak of 20 percent but well above the 1980s average of 16 percent, or America's lowly 9 percent of GNP figure.<sup>36</sup> But this relatively sanguine situation could well worsen if the credit crunch continues, and if those corporations flush with cash reserves run out of liquidity for business investment. Then capital spending would really plummet.

Faced with slumping capital spending, most analysts believe the BOJ will be forced to significantly lower the official discount rate (ODR) during 1992. Unfortunately, this BOJ easing will be too little and too late to revive private capital investment, which will continue to fall in 1992. That's because Japanese companies simply have no good reason to expand production capacity. Domestic demand has cooled and inventories are accumulating.

### **Global Economic Impact.**

The overall slowdown in the Japanese economy significantly impacts on the rest of the world. For instance, Japan is no longer "buying up" America and the rest of the world. In fact, Japanese capital is coming back home. After 5

years of rapid expansion overseas, Japanese foreign direct investment slowed in the 1990 fiscal year. Worldwide, it was 16 percent lower in 1990 than in 1989 (when measured in current dollars). And in America, Japanese foreign direct investment fell by 20 percent in 1990. Moreover, lower levels of Japanese direct investment will continue until 1993, according to an Export-Import Bank survey.<sup>37</sup> Meanwhile, Japanese purchases of foreign securities have slumped even more than Japanese foreign direct investments.<sup>38</sup> In addition, the surplus in Japanese trade and current account (trade plus "invisibles" like tourism and insurance) is no longer getting smaller each year. In fact, both the Japanese trade and current account surpluses are going up sharply. (See Figure 2).

While a Japanese surplus in the current account and trade balances is always a politically sensitive issue, it was never really an overwhelming economic problem in the past. This was because Japan arguably played a constructive role in recycling the surplus in the form of long-term capital flows to the rest of

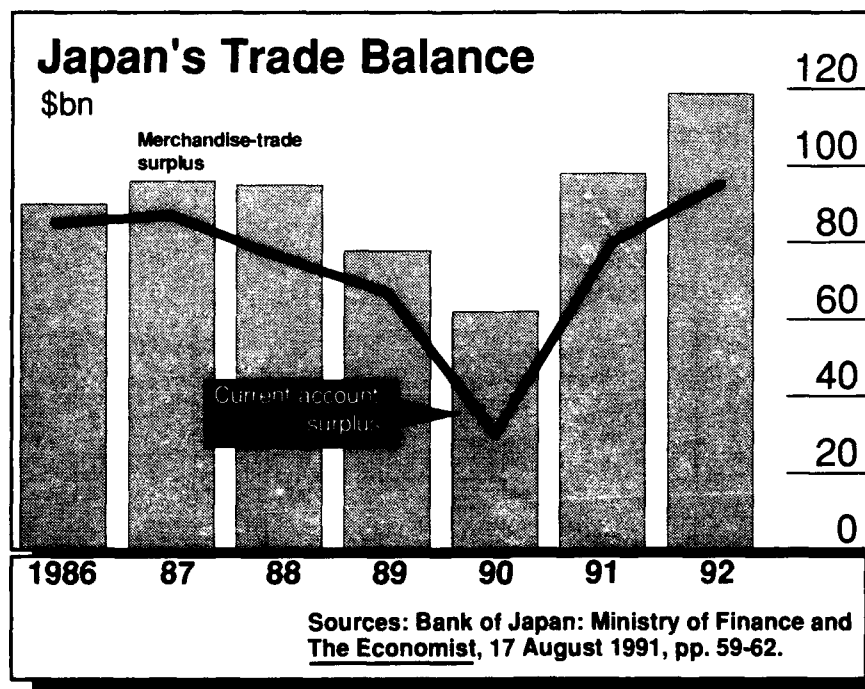


Figure 2.

the world. For instance, Japanese investors played an important part in financing the U.S. budget deficit by buying U.S. Government bonds. So, in 1988, when Japan's current account surplus was \$79.6 billion, it recycled that money back out into the world economy in the form of a long-term negative capital balance of \$130.9 billion. In short, Japan played a constructive role as the leading banker to the rest of the world during the 1980s.<sup>39</sup>

### Reversing Capital Flows.

All things being equal, the rising current account surplus should make it easier for Japan to play a locomotive role and stimulate the U.S. recovery (and economic needs of the former Soviet republics, Eastern Europe and the other countries trying to move to market-oriented economies). But that is not happening and is not likely to happen to any great extent. As cited earlier, the huge tide of long-term funds that Japan invested overseas during the 1980s has been washing home again. The net outflow of capital in Japan in 1990 fell to \$43.5 billion, the lowest figure since 1983 and less than a third of what it was in 1988.<sup>40</sup> And in 1991, Japan experienced its first net inflow of long-term capital from abroad in 11 years.<sup>41</sup> (See Figure 3).

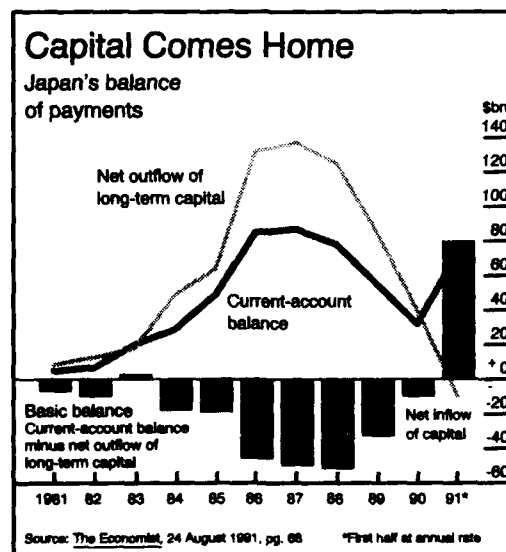


Figure 3.

·Why is this happening? Basically, Japan is undergoing a fundamental readjustment following the financial excesses of the 1980s. Embattled Japanese banks and corporations are repatriating capital to cover their losses in the collapsing property and stock markets.<sup>42</sup> Aggravating the flow of long-term capital back into Japan has been the magnet of higher real interest rates in Japan. That makes returns on capital (in the form of bond yields) more attractive in Japan than in the past.<sup>43</sup> And finally, foreign speculators have seen the depressed Japanese stock market as an opportunity to go "bottom fishing." Consequently foreign net purchases of Japanese stocks and bonds rose from \$4 billion in 1990 to an annualized \$63 billion in the first 8 months of 1991.<sup>44</sup>

### **Growing Trade Surplus.**

Probably the most contentious issue in Japanese economic relations with America and Europe is the chronic Japanese trade surplus. From 1986 to 1990 Japan's trade surplus and its more inclusive current account surplus (which includes services and investment income as well as merchandise trade) both shrank. But then about mid-1991, both surpluses began to swell again and will probably continue to do so unless Tokyo's policies change. But contrary to the popular notion, the Japanese trade surplus is not proof of Japanese success. Instead, both the trade and current account surpluses are widening because the economy is doing worse, not better. That's because the Japanese economic slowdown is drying up the demand inside Japan for imports. And embattled Japanese corporations, faced with dwindling domestic demand for their products, are struggling to boost sales by increasing exports.

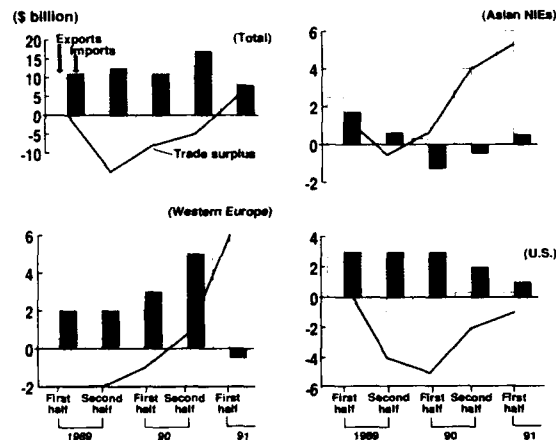
The resulting growth in the Japanese trade and current account surpluses is heating up Japanese political tensions with America, Western Europe and the rest of Asia. Those tensions could increase even more if the U.S. economy recovers, thus increasing America's appetite for Japanese goods, which in turn serve to widen the trade imbalance.

Before examining the fundamentally different nature of this new phase in Japanese trade relations, it is helpful to look back at the previous two swings in Japan's current account surplus, which in turn reflect changes in Japan's domestic economy and in international economics. During the first phase from 1982 to 1986, Japan's current account surplus rose from 0.6 percent of GNP to 4.3 percent of GNP. This was because a tight fiscal policy in Tokyo depressed domestic demand, a worldwide oil glut meant cheap oil imports for Japan, and a strong dollar sucked up increasingly competitive Japanese exports. Needless to say, Japanese trading partners in America and elsewhere were alarmed by their growing trade and current account deficits with Japan. To curb this surplus, Japan did almost everything its angry trade partners demanded. Tokyo let the yen appreciate 42 percent on a trade-weighted basis between 1985 and 1989.<sup>45</sup> As a result, Japanese exports were more expensive and less attractive to its trade partners and imports were much cheaper to Japanese consumers. And so between 1986 and 1990, Japan's policy produced a faster growth of import volumes and a slower growth of export volumes than either America or Germany.<sup>46</sup>

In addition, BOJ's lower interest rates boosted domestic demand, discouraged personal savings and raised domestic investment. In 1986 the Japanese saved 16.1 percent of their disposable incomes. But by March 1990, growing consumerism in Japan had caused personal savings to drop to just 13.8 percent of disposable income. And since the current account balance calculates the difference between savings and investment, the fall in savings and the surge in investment helped to significantly reduce Japan's current account surplus. Between 1985 and 1990, the value of Japanese imports rose by 83 percent. In fact, in just 4 years, Japan's current account surplus fell from its peak of 4.3 percent of its GNP in 1986 to only 1.2 percent of its GNP in 1990.<sup>47</sup>

Unfortunately U.S., West European and Asian fears of the politically sensitive Japanese trade surplus are back again. (See Figure 4). After falling to a relatively modest \$64 billion in 1990, the Japanese trade surplus in 1991 is expected to reach about \$90 billion.<sup>48</sup> Monthly figures are even more disturbing

### Expanding Japanese Trade Surpluses



Sources: NKB Economic Report, September 1991, Vol. 21, No. 9; and Financial Times, 27 September 1991, p. 2.

Figure 4.

to Japan's trading partners. In October 1991, Japan's trade surplus more than doubled from a year earlier. In November 1991, it almost tripled from the same month last year.<sup>49</sup> Particularly worrisome to Washington was Japan's trade surplus with America, which grew in October 1991 for the third month in a row after long holding even.<sup>50</sup> Worse still, Japan's trade surplus may soar even higher in 1992. Mitsui Taiyo Kobe forecasts a Japanese trade surplus in 1992 of \$113.7 billion, while a new study by Stephen King, an economist at James Capel in London, predicts it will swell to \$118 billion. Both forecasts surpass the 1986 Japanese trade surplus record of \$101.6 billion.<sup>51</sup>

Meanwhile, Japan's growing current account surplus is also raising concerns among Japan's commercial partners. The current account surplus was up more than four-fold in November 1991, reaching \$7.26 billion compared to 1.68 billion a year earlier.<sup>52</sup> Nikko research says that the current account surplus in 1991 is likely to reach \$74.8 billion, more than double the \$33.7 billion figure for 1990. Mitsui Taiyo Kobe predicts a 1992 Japanese current account surplus of \$82.9 billion, compared with a 1986 record of \$94.1 billion. And King's

study forecasts a \$95 billion surplus, thus breaking the 1986 record. While Nikko Research sees only a slight increase in the surplus from 1991 to 1992, it forecasts that the current account surplus will reach a record \$104.8 billion in a few years.<sup>53</sup>

For awhile the Japanese government tried to discuss the trade surplus as a "blip" on the graph and the result of "special factors" such as oil price and currency fluctuations. But at best, these factors are only responsible for about \$20 billion of the trade surplus.<sup>54</sup> Tokyo also likes to point out that the current account surplus, at about 2 percent of GNP, is only half what it was in real terms in 1986-87. And even if King's forecasts are correct, the current account surplus would only be about 3 percent of GNP compared with more than 4 percent in 1986.<sup>55</sup>

### **Why Japanese Imports are Down.**

Needless to say, these kinds of responses are not going to placate Japan's angry trading partners, who charge that Japan's markets are basically closed. If that rhetoric were correct, then Japan would not be the third-largest importer in the world in 1990, buying \$235 billion worth of goods. Measured by imports per head, Japan is similar to the United States: \$1,900 per head in Japan compared to America's \$2,050.<sup>56</sup>

Even so, all the other industrialized countries would benefit if Japan imported even more. Some analysts argue that Japan's unfair trading practices keep it from importing more goods and services. Again, the case against Japan in this area is inconclusive at best. Japan's average tariff on industrial products is 2.6 percent, while America's is 3 percent. Equally inconvenient for critics of Japanese commercial policies is the recent World Bank study of non-tariff barriers (such as quotas, licenses and voluntary export restraints) that found overall Japanese policies in these areas comparable to American ones. Japan protects agriculture more than the United States, but America protects more of its manufacturers. A stronger case can be made that Japanese informal barriers keep out Western products. But even here, Gary Saxonhouse's study

of Japan's close-knit industrial groups (Keiretsu) shows that many Keiretsu firms buy from fellow group members simply because it is commercially advantageous to do so.

Some would argue that Washington must use numerical import targets to boost Japanese imports. In fact, the so-called Action Plan negotiated during President Bush's January 1992 visit to Japan calls for the Japanese to buy \$26.4 billion of foreign goods a year by 1994, up by \$10.2 billion over their imports in 1990. In addition, Japanese car makers promise to buy more American car parts and display more American cars in their dealerships. If the goal is to make a small dent in the trade imbalance, then these numerical import targets will probably be successful. But if the goal is to significantly reduce the trade imbalance, then these kinds of promises are not nearly enough. Overall, this attempt to "manage" trade with Japan is a bad precedent and moves away from the earlier U.S. policy of free trade. It also undermines U.S. credibility when Washington tells the East European states and the former Soviet states to abandon managed trade. Consumer sovereignty should determine U.S.-Japanese trade, not bureaucrats and politicians. And finally, at home, managed trade creates a false expectation among Americans that U.S. car sales to Japan will shoot up and that the trade deficit will fall sharply. Since neither is likely given these limited promises, a dangerous backlash could precipitate a militant call for U.S. protectionism.

If America and the other industrialized countries are really serious about significantly reducing the Japanese external imbalance, then they need to understand one simple fact. The reemergence of a rising trade surplus in 1991 is unrelated to Tokyo's failure to open up its markets even more. Some basic economics explains why Japan's surplus in its trade and current accounts is a conceptually flawed measure of the degree to which Japan is open to imports.

The trade surplus measures the difference between export values and import values which, in a world of internationally mobile capital, is determined by the difference between national savings and investment. Given free movement of global capital, therefore, Japan's surplus in its trade and



current accounts reflects the fact that the Japanese save more than they invest. The difference is exported to make up the shortfall in savings in America and now in Germany.<sup>57</sup>

As cited earlier, Japan's current account surplus fell from 4.5 percent of GNP to 1.2 percent in 1990 because Japanese savings were soaked up by a rise in both domestic investment and the Japanese consumer binge.<sup>58</sup> At the same time, the U.S. demand for foreign savings fell. In addition, Tokyo's willingness to let foreign exchange reflect these macroeconomic realities caused the yen to appreciate significantly, thereby making foreign imports cheaper to the Japanese consumer and Japanese exports less attractive to foreign consumers. Japanese trading partners were pleased because Japan had faster import growth and slower export growth than America and Germany from 1985 to 1990.<sup>59</sup>

Unfortunately, this trend toward a dovetailing of domestic savings and investment in Japan reversed itself with the slowdown in the Japanese economy. The slowdown has once again widened the gap in Japan between savings (on the rise) and domestic investment (falling). And as the gap widens, Japan's current account surplus also increases. OECD forecasts that it will reach 2 percent of GNP in 1992.<sup>60</sup>

It's not hard to see why the gap between savings and investment is widening in Japan. The credit crunch and the economic slowdown have depressed domestic demand. With interest rates much higher, consumers are saving more and spending less.<sup>61</sup> That's especially bad for imports in Japan. Financial scares and high interest rates have combined to cut the Japanese consumer appetite for everything from French art to German BMWs. Japanese car imports, for instance, have fallen this year for the first time since 1983.<sup>62</sup>

At the same time Japanese exports are gathering momentum. The slowing of domestic demand in Japan in 1991 and the surge in Japanese capital investment during the boom years (1986-90) have given Japanese corporations the incentive to increase exports.<sup>63</sup> Besides the qualitative edge which capital spending gave them, Japanese exports have also been helped in 1991 by the relative weakness of the yen,

which rose by more than 60 percent in trade-weighted terms from early 1985 until 1988, but was on average 12 percent below that figure during much of 1991.<sup>64</sup>

Therefore, the response to Japan's ballooning surpluses should be driven by these macroeconomic realities in Japan—not by rigid views about whether markets are open or closed in Japan. Trade and current account imbalances are ultimately macroeconomic problems, the outcome of shifts in savings and investments, aggregate demand and prices. Therefore, eliminating the imbalances calls for shifts in these macroeconomic areas. A lasting reduction in the surplus requires a sustained reduction in Japanese savings—by individuals, companies or the government sector—or an increase in domestic investment. Over the long haul, Japan's personal savings ratio, and hence its external surplus, will fall as its population ages. But U.S.-Japanese relations cannot wait that long. Something has to be done now. Since the rising savings, falling investments and growing surplus in Japanese trade and current accounts are all signs that the Japanese macroeconomy is doing worse, not better, the simple solution to these problems is to stimulate noninflationary growth in the Japanese economy.<sup>65</sup>

### **Recent Policy Initiatives.**

In the face of rising Japanese trade and current account surpluses, U.S.-Japanese relations are showing signs of deterioration. In September 1991, Richard Gephardt, the Democratic Party's majority leader in the House, introduced legislation aimed at punishing countries—particularly Japan—for their trade surpluses with the United States. Gephardt proposed a bill that would essentially prompt Washington to revive "Super 301" punitive action against Japan. His proposal targets countries that account for more than 15 percent of the U.S. trade deficit (meaning Japan, which last year accounted for 40 percent of the deficit). And unlike "Gephardt I" or the old "Super 301" type U.S. trade legislation that merely required the U.S. President to identify unfair trades but left him wide discretion for punitive action, this new Gephardt II will put new teeth into "Super 301."<sup>66</sup>

In November 1991, the Japanese Ministry of International Trade and Industry (MITI) unveiled a plan for major Japanese corporations to expand imports. Unfortunately, the plan appears to have more bark than bite. MITI's program, known as the "Business Global Partnership Initiative," is really a voluntary, toothless plan that has more to do with public relations than macroeconomics.<sup>67</sup>

A more serious response to the economic slowdown and external imbalances has been taking place at the Bank of Japan. In July 1991, BOJ took some action to ease the credit crunch. It lowered the official discount rate (ODR) from 6 percent to 5.5 percent, the first reduction in more than 2 years. Then, in the fall of 1992, BOJ showed even more signs that it was ending its elongated 2-year crusade against the stocks and property markets and began to make it cheaper for banks to lend. In October, for instance, BOJ announced plans to cut, for the first time in 10 years, commercial banks' reserve ratios (which govern the amount of funds banks have to deposit at the Japanese central bank). The last time reserve ratios were cut was in 1981—a recession year.<sup>68</sup> The overnight call rate (at which banks lend to each other) also fell from 8.2 percent to 6.25 percent in December. Government bond yields have also dropped.<sup>69</sup> And finally, BOJ eased interest rates twice more at the end of 1991. BOJ now believes it won't have to ease much more. But many private economists think the BOJ will have to do much more to revive a sagging Japanese economy. Michael Naldrett of Kleinwort Benson, a British merchant bank, sees the discount rate falling to 3.5 percent by June 1992.<sup>70</sup> The last BOJ reduction in the ODR from 5 percent to 4 1/2 percent on December 29, 1991—on the eve of President Bush's January visit to Japan—was in part an attempt to placate the U.S. President and the 21 American business leaders accompanying him.<sup>71</sup> As a political gesture, the latest easing apparently worked. President Bush praised BOJ's easing, apparently believing that lower Japanese interest rates would increase domestic demand inside Japan for U.S. exports.

## **A Stronger or Weaker Yen?**

But will Tokyo's policy of keeping fiscal policy steady while easing monetary policy be sufficient to jump-start the Japanese economy? And will it really serve to revive Japanese imports, depress Japanese exports and narrow the external imbalance? One thing is certain. Cutting interest rates takes a year or more to have an effect, and will certainly take too long to arrest deteriorating U.S.-Japanese relations anytime soon. But the difficult factor to calculate is the effect lower interest rates will have on the foreign exchange value of the yen. All things being equal, lower Japanese interest rates could well weaken the yen and a weaker yen could have the counterproductive effect of reviving exports to America and Western Europe and depressing U.S. and European imports, thus causing the trade imbalance to balloon even more and fanning more trade frictions.

That's why most of the G7 countries told the Japanese in October 1991 (at the IMF/World Bank meetings in Bangkok) that the yen should be even stronger to help curb the growing current account and trade surpluses. And, in fact, the yen gained 20-25 percent against most currencies since the early months of 1990. In short, the G7's desire for a strong yen potentially clashes with U.S. and Japanese domestic demands that BOJ should cut interest rates to revive the flagging economy.<sup>72</sup>

Of course, forecasting where the yen is going is risky business these days. Some, like London Stockbroker James Capel, say Japan's current account surplus will widen in the second half of 1991, and this surplus will serve to strengthen the yen to 120 yen against the dollar by the end of 1992.<sup>73</sup> The problem with Capel's forecast and G7's support for a stronger yen is that the correlation between Japan's current account surplus and the strength of the yen is imperfect.

In fact, Japan's capital account has been a more decisive indicator than the current account for exchange rate movements. For instance, from the early 1980s up through 1990, Japan's current account surplus was the biggest in the world. But until 1991, its net outflow of long-term capital was

even bigger. As a result, Japan's "basic balance" (current account surplus minus net outward investment of long-term capital) was in deficit every year except 1983.<sup>74</sup> This explains, to some extent, why the yen tended to be weak in the 1980s despite its chronic trade and current account surpluses.<sup>75</sup>

But as stated earlier, all this changed in 1991. Long-term capital is coming back home. In the first half of 1991, foreigners invested \$19 billion (at an annual rate) more in Japan than the Japanese invested overseas. That's why Japan had a surplus on its basic balance of \$81 billion (at an annual rate) in the first half of 1991, compared with an average annual deficit of almost \$10 billion over the past 5 years. All of this long-term capital flowing into Japan has meant an increasing demand for the yen. And so the yen rose by 14 percent against the dollar between May 1990 and August 1991.<sup>76</sup>

On the eve of the Bush visit to Japan, the yen appreciated to around 120 yen to the dollar—its highest level in 3 years.<sup>77</sup> If this appreciation can be sustained, then the Japanese consumer will find his yen can buy more U.S. and other foreign goods. This, in turn, should reduce the trade imbalance and ease Japanese trade frictions with its trading partners. But how the exchange rate value of the yen will ultimately play out amongst all the competing pressures is difficult to predict.

It is probably fair to say that the value of the yen will remain uncertain and possibly volatile as the market is buffeted by the recent lowering of Japanese interest rates (which should depress the currency), and the continuing high levels of long-term capital flows and the current account and trade surpluses (which should all support it). That being the case, Japan should not repeat its mistakes of lowering interest rates more than is domestically necessary.<sup>78</sup> Otherwise, cheap credit could once again flood the Japanese market, inciting a replay of the boom and bust pattern in the Japanese economy.

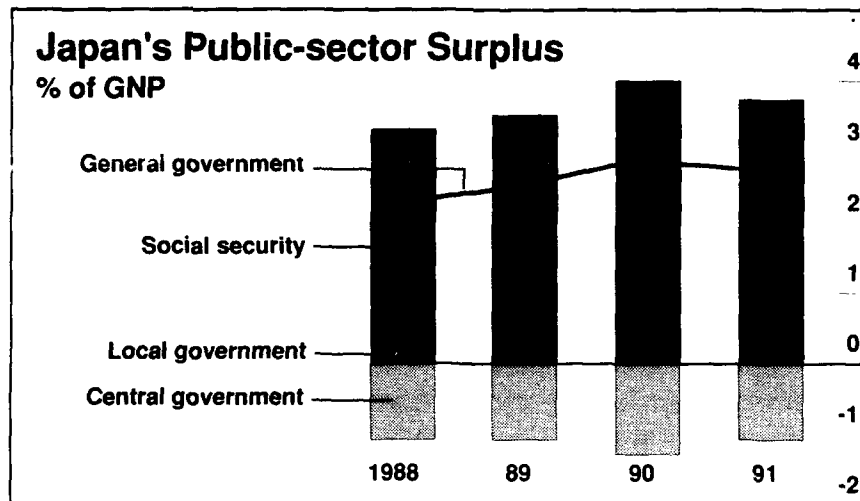
### **A Better Strategy.**

If Tokyo's strategy of keeping fiscal policy steady while letting monetary policy steer the economy produces uncertainty at best, the time has probably come for the

Japanese government to consider changing its strategy. A better strategy would be for Tokyo to keep monetary policy steady (now that interest rates are relatively low), and use fiscal policy to steer the economy out of its doldrums. In other words, the Japanese government needs to prime the fiscal pump and boost private and public consumption. Without this kind of fiscal stimulation, Japan will continue to have stagnation in financial markets and a politically divisive rising surplus in trade and current account balances.

Of course, this expansionary fiscal policy won't be easy to implement. But luckily, most Japanese government officials would agree that inflationary pressures are down. In addition, the current Japanese Prime Minister, Kiichi Miyazawa, appears to be a quiet Keynesian who is predisposed to increasing government spending for roads, harbors and other public works projects. He'd also like to stimulate personal consumption (and lower personal savings) with a tax cut. But after only 2 months in power, he has demonstrated an inability to energize support for his programs and his personal popularity in his own Liberal Democratic Party (LDP) is failing. The powerful LDP Takeshita faction of Miyazawa's LDP is predisposed to price stabilization and therefore less inclined toward fiscal expansion. And even if Miyazawa can rally LDP support, the LDP does not have a majority in the upper house of the parliament and opposition parties can block financial legislation for up to 60 days.<sup>79</sup> Miyazawa will also be opposed by the Japanese Ministry of Finance. The Finance Ministry frequently says that the central government already has a heavy burden of debt. It is also concerned about falling tax revenues and an increase in the federal budget deficit.<sup>80</sup>

But a closer look at the fiscal realities in Japan negates what the Finance Ministry says and shows that Japan, unlike America, has ample elbow room for fiscal expansion. For instance, total government outlays in Japan, equivalent to about 30 percent of GNP, remain the lowest among the G7 states. And Japan's gross debt to GNP—around 60 percent in 1991—is a point or two below the Group of Seven (G7) average. Most importantly, Japan actually has a public sector surplus



*The Economist*, 19 October 1991, p. 17.

Figure 5.

equivalent to 2.8 percent of GNP in fiscal 1990, compared with an average public sector deficit of 1.5 percent for G7 as a whole.<sup>81</sup> (See Figure 5).

This Japanese public sector surplus or savings cramps domestic demand and tends to push the politically sensitive external imbalance even higher. The logical solution, therefore, is for Japan to drastically cut its public sector surplus. The best way to accomplish this task is a Keynesian approach of increased government spending. Taxes should also be cut in Japan. To finance this Keynesian expansion, Tokyo should opt for a 10 percent increase in public construction spending in 1992-93. The multiplier effect of public projects on the private sector is quite large and would have a more immediate impact on the Japanese economy and the trade imbalance than any easing of monetary policy.<sup>82</sup>

With this in mind, the United States and its G7 partners should do everything they can to support Miyazawa's Keynesian instincts, since it is arguably the optimum strategy to boost the Japanese economy while narrowing the politically divisive external imbalance. Boosting the Japanese economy would also mean that the long-term capital flows presently

coming back to Japan could once again be recycled back to the rest of the world. Tokyo could play a locomotive role for global recovery in America and Western Europe. Japanese investment could also go out into Eastern Europe and the former Soviet republics and begin to make the new world order a reality.

### **A U.S. Strategy.**

The strategy outlined above will arguably help to curb the Japanese external imbalance. But a Japanese trade surplus, albeit a smaller one, will persist simply because Japan, as a nation, saves more than it invests. In contrast, the United States consumes too much and saves too little. As a result, America has a chronic trade deficit because the modest pool of national savings is always smaller than U.S. investment. The record U.S. budget deficits of the 1980s forced the U.S. Government to absorb substantially all (three quarters) of the nation's available private savings, thereby crowding out potentially worthwhile private capital spending and thus contributing to the United States under investing in all those things that make a country productive and competitive.<sup>83</sup> In addition, U.S. corporations overborrowed for a series of transactions (mergers, acquisitions, stock repurchases and leveraged buy-outs) that failed to create any new earning assets.

And because of the low U.S. national savings pool, the small amount of U.S. business investment that did occur in the 1980s was all too frequently financed by foreign capital. In other words, the United States was able to achieve this meager business investment only by becoming a major capital importer. Had the United States chosen to invest in its public infrastructure or human capital (education), then the decline in business investment would not have been quite so devastating. Unfortunately, U.S. investment in education and public infrastructure also fell in the 1980s.

The result is that America is not experiencing a normal recession of too much inventory and too little aggregate demand. America is experiencing long-term, structural



economic stagnation due to a decade of overborrowing and underinvestment. Therefore a quick-fix tax cut would be the worst possible policy at this time because it would swell the budget deficit even more, drive up long-term real interest rates (because of more government borrowing) and ultimately retard long-term economic growth.

From an external perspective, the United States has a chronic trade deficit because the huge budget deficit drains U.S. savings needed for investment. This dismal trend must be reversed if America is ever to become more competitive with Japan, and if America is to do its part to curb the trade and current account imbalance on a permanent basis. The United States must somehow develop the political will to reduce the budget deficit, which in turn will increase U.S. national savings. America must then use this new domestic pool of savings to increase investment in all areas that make a country great (new factories, new machinery, new research, new infrastructure and a better educated work force). If Washington follows this long-term strategy and if Tokyo follows the strategy cited earlier, the politically contentious trade and current account imbalance will no longer be much of a problem. And Tokyo and Washington will finally be able to work together to stimulate global recovery and build a new world order.

## ENDNOTES

1. *The Far Eastern Economic Review* (FEER), November 7, 1991, pp. 48-50.
2. *Financial Times* (FT), December 20, 1991, p. 3.
3. *FT*, September 24, 1990, p. iv.
4. *The Economist*, December 7, 1991, pp. 89-90.
5. *FT*, December 27, 1991, p. 5.
6. *The Economist*, June 22, 1991, p. 71.
7. *FT*, September 11, 1991, p. 12.
8. *The Economist*, June 22, 1991, p. 71.
9. *FT*, October 2, 1991, pp. 1 and 16.

10. *FT*, September 2, 1991, p. 15.
11. *The Wall Street Journal* (WSJ), December 11, 1991, p.12.
12. *The Economist*, June 22, 1991, p. 17.
13. *WSJ*, December 11, 1991, p. A1 and A12.
14. *Ibid.*
15. *Ibid.*
16. *The Economist*, November 2, 1991, p. 72.
17. By issuing convertible bonds (or bonds with warrants and equity finance), Japanese corporations in the late 1980s could raise funds at an effective rate as low as 0.3 percent. Now the actual cost of capital has risen to more than 7 percent! *FT*, January 3, 1991, p. 3.
18. Corporate liquid assets fell by 8.9 trillion yen in the second quarter of 1991. *The Economist*, December 7, 1991, pp. 89-90.
19. *FT*, December 14/15, 1991, p. 3.
20. *The Economist*, August 31, 1991, p. 67.
21. *WSJ*, November 1, 1991, p. A10.
22. *FT*, December 11, 1991, p. 6.
23. *The Economist*, August 31, 1991, p. 67
24. *FEER*, November 7, 1991, pp. 48-50.
25. *WSJ*, November 1, 1991, p. A10; and *FT*, January 17, 1992, p. 4.
26. *WSJ*, December 21, 1991, p. A6.
27. *FT*, December 11, 1991, p. 6.
28. *FT*, December 18, 1991, p. 14.
29. *The Economist*, December 7, 1991, pp. 89-90; and *The Economist*, November 9, 1991, p. 90.
30. *The Economist*, November 9, 1991, p. 90.
31. *FEER*, November 7, 1991, pp. 48-50.
32. *WSJ*, November 21, 1991, p. A11.
33. *FT*, November 15, 1991, p. 18.

34. *FT*, January 3, 1992, p. 9.
35. *The Economist*, November 9, 1991, p. 90; and *FT*, August 23, 1991, p. 7.
36. *The Economist*, November 9, 1991, p. 90.
37. *FT Survey*, "Japan," July 15, 1991, p. II.
38. *The Economist*, August 24, 1991, p. 68.
39. *FT*, September 2, 1991, p. 15.
40. *FT Survey*, "Japanese Financial Services," March 19, 1991, p. 1.
41. Japan's long-term capital account swung back into the black again in November 1991, with net long-term capital imports at \$381 million, compared to capital exports of \$2.93 billion in 1990. This long-term account has been in the black for most of 1991, with October being an exception with a \$1.43 billion deficit. *FT*, December 27, 1991, p. 5.
42. *WSJ*, December 11, 1991, pp. A1 and A12.
43. *FT*, September 2, 1991, p. 25.
44. *The Economist*, October 26, 1991, p. 104.
45. *The Economist*, August 24, 1991, p. 68.
46. *FT Survey*, July 15, 1991, p. II.
47. *The Economist*, August 17, 1991, pp. 59-62; and *The Economist*, October 19, 1991, p. 17.
48. *The Economist*, August 17, 1991, pp. 59-62.
49. *WSJ*, November 14, 1991, p. A11; and *FT*, December 12, 1991, p. 16.
50. *WSJ*, November 14, 1991, p. A11.
51. *FT*, December 18, 1991, p. 14; and *The Economist*, August 17, 1991, pp. 59-62.
52. *FT*, December 27, 1991, p. 5.
53. *FT*, December 18, 1991, p. 14; and *The Economist*, August 17, 1991, pp. 59-62.
54. *FT*, September 13, 1991, p. 3.
55. *FT*, November 4, 1991, p. 1; *FEER*, pp. 48-50; and *The Economist*, August 17, 1991, pp. 59-62.

56. The following discussion regarding the Japanese propensity to import as well as the recent Bush trip to Japan draws from *The Economist*, January 11, 1992, pp. 11-12, 31-32 and 60-62.

57. *FT*, November 20, 1991, p. 18.

58. The current account surplus actually fell to 0.7 percent of GNP in the fourth quarter of 1990. *FT Survey*, "Japan," July 15, 1991, p. II.

59. *FT*, November 20, 1991, p. 18.

60. *Ibid.*

61. On the importance of more personal consumption for Japanese economic growth in 1992, see the "DKB Economic Report," in *FT*, December 27, 1991, p. 7.

62. *The Economist*, August 17, 1991, pp. 59-62.

63. Contrary to what "Japan bashers" believe, Japan's economy is primarily driven by the domestic market. Japan exports only 14 percent of what it produces, less than any other major industrialized country except the United States. Paul Krugman, *The Age of Diminished Expectations*, Washington, DC: The Washington Post Company, 1990, pp. 71-72.

64. *The Economist*, October 19, 1991, p. 17; and *FT*, September 13, 1991, p. 3.

65. *The Economist*, August 17, 1991, pp. 59-62.

66. *FEER*, November 7, 1991, pp. 48-50; and *FEER*, September 25, 1991, pp. 76-77.

67. *FEER*, November 28, 1991, pp. 48-49.

68. *FT*, October 2, 1991, pp. 1 and 16.

69. *The Economist*, December 7, 1991, pp. 89-90.

70. *Ibid.*

71. *FT*, December 30, 1991, p. 1; and *FT*, December 31, 1991, p. 12.

72. *The Economist*, October 26, 1991, p. 104.

73. *The Economist*, August 24, 1991, p. 68.

74. Some economists dismiss this distinction between short- and long-term capital. But all financial capital is not the same. Short-term capital flows simply finance a current account surplus or deficit, whereas long-term

capital flows tend to be a decisive variable in the basic balance, which in turn can be seen as a de facto proxy for the net demand for the yen. *The Economist*, August 24, 1991, p. 68.

75. *The Economist*, August 24, 1991, p. 68.

76. *Ibid.*

77. *FT*, January 7, 1992, p. 14.

78. *FT*, November 20, 1991, p. 18.

79. *FEER*, November 7, 1991, pp 48-50.

80. To make up for a shortfall in revenue caused by the economic slowdown, Tokyo plans to increase deficit financing. Bond issues are expected to rise by 36.3 percent, reversing an 8 year trend in which Tokyo sought to cut requirements for this kind of deficit financing. *FT*, December 23, 1991, p. 12.

81. *FEER*, November 7, 1991, pp. 48-50.

82. *Ibid.*

83. This section draws from comments made by Benjamin M. Friedman, Professor of Economics at Harvard University, at the American Economic Association meetings in New Orleans, January 3, 1992.

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